

**THE U.S. HAS REDUCED ITS FUNDING  
FOR THE IRAQI SECURITY FORCES, BUT  
CONTINUED SUPPORT WILL LIKELY BE  
NECESSARY**

**SIGIR-09-012  
JANUARY 26, 2009**

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# SIGIR

Special Inspector General for IRAQ Reconstruction

## Summary of Report: SIGIR-09-012

### Why SIGIR Did This Study

Since 2005, the Congress has appropriated millions of dollars to the Iraq Security Forces Fund (ISFF) to allow the Commander, Multi-National Security Transition Command-Iraq (MNSTC-I), to provide equipment, supplies, services, training, facility and infrastructure repairs, renovations, and construction to the Iraqi Security Forces. Until Fiscal Year (FY) 2009, the use of these funds was unrestricted. However, the Duncan Hunter National Defense Authorization Act (NDAA) for Fiscal Year 2009 restricted the use of the FY 2009 funds for infrastructure projects. The NDAA also requires MNSTC-I to ensure that Iraqi funds are used to support the development of the Iraqi Security Forces.

In July 2008, SIGIR reported on how the ISFF was being used for infrastructure projects. Given the new NDAA restriction and guidance, SIGIR further examined (1) MNSTC-I's use of appropriated funds and its spending plans for the remaining unobligated funds, (2) MNSTC-I's process for making ISFF spending decisions, and (3) the relationship of U.S. spending to Iraqi spending for the Iraqi Security Forces.

### What SIGIR Recommends

SIGIR recommends that the MNSTC-I Commanding General direct that a process be developed to internally document discussions with the GOI regarding funding arrangements, the results of those discussions, and the rationale for using ISFF instead of GOI funds for major requirements. SIGIR further recommends that, as part of this process and to the extent practical, MNSTC-I continue to engage with the GOI and help it develop plans to ensure that equipment and training support funded with ISFF appropriations is sustained.

MNSTC-I disagreed with SIGIR's draft recommendation and stated that it documents cost-share agreements by including anticipated GOI costs in its spending plans. SIGIR continues to believe that implementing its recommendations will further improve management control over the program and promote transparency.

While MNSTC-I FY 2009 spending plans have been developed, the Office of the Secretary of Defense (Comptroller) stated it has not approved these plans and the funds have not been released for obligation.

January 26, 2009

## The U.S. Has Reduced Its Funding for the Iraqi Security Forces, but Continued Support Will Likely Be Necessary

### What SIGIR Found

As of November 30, 2008, the Congress had appropriated \$18.04 billion to the ISFF, of which \$14.3 billion had been obligated for sustainment, equipment, training, infrastructure, and other related support for Iraq's security forces. Of the remaining funds, \$277.1 million has expired and cannot be used for new obligations, and about \$3.5 billion is available for obligation until September 30, 2009. After accounting for its needs through FY 2009, MNSTC-I has about \$730 million for which no requirements have been identified.

The Congress has reduced ISFF appropriations over the last few years, providing \$3 billion for FY 2008 and FY 2009, and \$1 billion as a "bridge" for FY 2009. Of this \$4 billion, MNSTC-I has programmed about 42% for equipment purchases, 30% for training needs, 10% for sustainment support, 8% for associated activities, and 10% for infrastructure. Because the Congress prohibited the use of FY 2009 bridge funding for infrastructure projects, all of the funds programmed for these expenditures will come from the FY 2008 and FY 2009 funding.

When preparing its spending plans, MNSTC-I's directorates and functional teams consider several factors, including operational orders and priorities, spending criteria and funding guidance, and input from Iraq's Ministries of Defense and Interior. MNSTC-I's Commanding General, however, is the final arbiter for all funding decisions. MNSTC-I officials stated that decisions to use U.S. funds instead of Iraqi funds are made mostly through high-level negotiations with Iraqi officials in which they encourage greater Iraqi spending in accordance with the FY 2009 NDAA. However, the negotiations and the agreements reached are not well documented internally. Furthermore, although MNSTC-I encourages the GOI to adhere to its agreements, it cannot compel compliance.

In the last two years, the GOI's contribution to the development of the Iraqi Security Forces has greatly increased, and U.S. funding has decreased. MNSTC-I estimates that the GOI will have spent almost \$16 billion to support its security forces by the end of 2009, excluding military pay. The spending was primarily accomplished through foreign military sales and the "donor" fund program in which Iraqi funds are provided to MNSTC-I for spending. The amount of Iraqi spending is expected to outpace the U.S. contribution in 2009. Despite this improvement, MNSTC-I anticipates that it will still need ISFF funding to support the development of key capabilities, consolidate security gains, and foster a long-term strategic relationship with Iraq.

### Conclusions

The GOI's funding for its security forces has increased over the last two years due in part to MNSTC-I's efforts to encourage the Iraqi government to become more self-reliant. Although these efforts continue under the direction of MNSTC-I leadership, MNSTC-I's internal documentation of cost-sharing negotiations and arrangements is insufficient. Despite the improvement, continued ISFF support will likely be sought to ensure that the Iraqi Security Forces possess the key capabilities necessary to provide for its security. These funds will be needed until the GOI's budgeting and funding execution processes can more quickly respond to requirements.

January 26, 2009

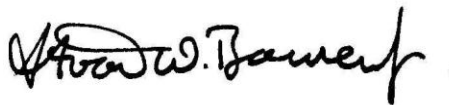
MEMORANDUM FOR U.S. AMBASSADOR TO IRAQ  
SECRETARY OF DEFENSE  
JOINT SECRETARIAT  
OSD POLICY EXECUTIVE SECRETARY  
COMMANDER, U.S. CENTRAL COMMAND  
COMMANDING GENERAL, MULTI-NATIONAL FORCE – IRAQ  
COMMANDING GENERAL, MULTI-NATIONAL SECURITY  
TRANSITION COMMAND – IRAQ  
DIRECTOR, IRAQ TRANSITION ASSISTANCE OFFICE

SUBJECT: The U.S. Has Reduced Its Funding for the Iraqi Security Forces, but Continued Support Will Likely Be Necessary (SIGIR 09-012)

We are providing this audit report for your information and use. It discusses the extent to which the Department of Defense is using the U.S.-appropriated Iraq Security Forces Fund to train and equip the Iraqi Security Forces, the process for making spending decisions, and the degree to which the Government of Iraq is sharing the cost to develop the Iraqi Security Forces. This audit was conducted as Special Inspector General for Iraq Reconstruction (SIGIR) project 8033. It was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978.

We considered comments from the Multi-National Security Transition Command-Iraq and the Office of the Secretary of Defense (Comptroller) when preparing the final report. The comments are addressed in the report, where applicable. A copy of the comments from the Multi-National Security Transition Command-Iraq is included in the Management Comments section of this report.

We appreciate the courtesies extended to the SIGIR staff. For additional information on this report, please contact Mr. Glenn Furbish at (703-428-1058/[glenn.furbish@sigir.mil](mailto:glenn.furbish@sigir.mil)).

A handwritten signature in black ink, appearing to read "Stuart W. Bowen, Jr.", with a stylized flourish at the end.

Stuart W. Bowen, Jr.  
Inspector General

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# **The U.S. Has Reduced Its Funding for the Iraqi Security Forces, but Continued Support Will Likely Be Necessary**

**SIGIR-09-012**

**January 26, 2009**

## **Executive Summary**

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### **Introduction**

Since 2005, the Congress has provided \$18.04 billion in appropriated funds to the Iraq Security Forces Fund (ISFF) to allow the Commander, Multi-National Security Transition Command-Iraq (MNSTC-I), to provide assistance to the Iraqi Security Forces. These funds have been used for equipment, supplies, services, training, facility and infrastructure repairs, renovations, and construction. The Congress appropriated a total of \$3.0 billion for FY 2008 and FY 2009, and a \$1.0 billion “bridge” fund for FY 2009.<sup>1</sup> These funds expire at the end of FY 2009. Also, the Duncan Hunter National Defense Authorization Act (NDAA) for FY 2009 prohibits the use of FY 2009 ISFF appropriated funds for infrastructure projects, although previous authorizations allowed the use of these funds for such projects. It also requires MNSTC-I to ensure that Iraqi funds are used to support the development of the Iraqi Security Forces.

In July 2008, the Special Inspector General for Iraq Reconstruction (SIGIR) reported on the continued use of the ISFF for infrastructure projects in Iraq.<sup>2</sup> Given the restriction and the guidance expressed in the NDAA for FY 2009, SIGIR examined MNSTC-I’s use of ISFF appropriations for all categories of expenditures. For this report, SIGIR examined:

- MNSTC-I’s use of appropriated funds and spending plans for the remaining unobligated funds
- MNSTC-I’s process for making ISFF spending decisions, and
- the relationship of U.S. spending to Iraqi spending for the Iraqi Security Forces.

### **Results**

As of November 30, 2008, the Congress had appropriated \$18.04 billion to the ISFF, of which \$14.3 billion has been obligated to provide sustainment, equipment, training, infrastructure, and other related support to the Iraqi Security Forces. Of the remaining unobligated funds, \$277.1 million has expired and cannot be used for new obligations. However, about \$3.5 billion is still available for new obligations until September 30, 2009, when any unobligated funds will also

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<sup>1</sup> The Department of Defense requested approximately \$2 billion for the FY 2009 ISFF. The Congress appropriated a \$1 billion ‘bridge’ to the FY 2009 ISFF in Public Law 110-252.

<sup>2</sup> SIGIR-08-022, *Government of Iraq Increasingly Funding Iraqi Security Forces Infrastructure Development, but Substantial U.S. Support Remains*, July 26, 2008.

expire. ISFF appropriations have declined over the last few years: the Congress provided \$3 billion for FY 2008 and FY 2009, and a \$1 billion “bridge” for FY 2009. From the total \$4 billion, MNSTC-I plans to spend about 42% for equipment, 30% for training, 10% for sustainment support, 8% for associated activities, and 10% for infrastructure. Spending plans for FY 2009 have been submitted to the Office of the Secretary of Defense for review, but have not been approved and funds have not been released. Therefore, SIGIR used the FY 2009 spending plans provided by MNSTC-I in our analysis since it was the best information available at the time.

Additionally, because the Congress prohibited the use of the FY 2009 ISFF appropriation for infrastructure projects, all of the approximately 10% planned for this spending category comes from the FY 2008 and FY 2009 funding. However, after accounting for its needs through the end of FY 2009, MNSTC-I has about \$730 million for which no requirements have been identified.

MNSTC-I’s functional teams and directorates consider several factors when determining and prioritizing requirements within their individual spending plans, including operational orders and priorities, spending criteria and funding guidance, and input from Iraq’s Ministries of Defense and Interior. However, MNSTC-I’s Commanding General is the final arbiter for all funding decisions. MNSTC-I officials stated that decisions to use U.S. funds instead of Iraqi funds are made mostly through high-level negotiations with Iraqi officials, in which they encourage greater Iraqi spending in accordance with the FY 2009 NDAA guidance. However, this process and the results of these negotiations have not been well documented internally. Furthermore, although MNSTC-I encourages the Government of Iraq (GOI) to adhere to these agreements, it cannot compel compliance.

MNSTC-I continues to work with the GOI to increase its funding for the Iraqi Security Forces and decrease the U.S. government’s investments. Through foreign military sales and the “donor” fund program (that is, Iraqi funds managed by MNSTC-I), the GOI is expected to spend almost \$16 billion by the end of 2009, excluding military personnel pay; this amount is still less than the cumulative ISFF contribution over the same time period. The ratio of Iraqi-to-U.S. spending increased last year, and Iraqi spending is expected to outpace the U.S. contribution in 2009. Consequently, Iraq is expected to spend almost three times more than the U.S. government in 2008 and 2009. Although efforts to shift the funding burden to the Iraqis continue, MNSTC-I expects to need ISFF appropriations to improve Iraqi capabilities. As a result, MNSTC-I recently shifted its spending priorities and intends to use its funds to provide key capabilities, consolidate security gains, and foster a long-term strategic relationship with Iraq.

## **Conclusions**

The GOI’s funding for the Iraqi Security Forces has increased over the last two years due in part to MNSTC-I’s efforts to encourage the Iraqi government to become more self-reliant. Funding to develop the Iraqi Security Forces has made possible the growth in the number of trained and equipped forces. MNSTC-I has been able to achieve this goal under difficult security environment. As a result of the rapid growth in forces, the emphasis on how ISFF appropriations are used has now shifted to providing capabilities that were not developed during the force buildup. Consequently, a large portion of the remaining ISFF appropriations will be used to



purchase equipment and provide training to complete, sustain, modernize, and enable the Iraqi Security Forces.

While advisors and trainers from MNSTC-I and the Multi-National Corps-Iraq work to increase, train, and equip the Iraqi Security Forces, they also work with the GOI to increase the latter's funding contribution to its security forces. By assisting the GOI in purchasing more equipment and services through foreign military sales and the donor fund program, MNSTC-I expects that it will require less U.S. funding and receive more GOI financial support in the next few years. At the same time, MNSTC-I and Coalition advisors are also assisting the GOI in determining and executing security-related requirements. This has resulted in improvements in the GOI's budget and funding execution processes, which has allowed Iraq to make greater funding contributions. However, until these processes can fully support requirements, MNSTC-I anticipates that U.S. funding will still be needed to ensure that the Iraqi Security Forces possess the key capabilities necessary to provide security.

MNSTC-I officials acknowledge that future sustainment support is needed for some of the equipment and training services that will be purchased for the Iraqis. They also stated that helping the Iraqis in this area is a focus going forward. To better ensure that all ISFF-purchased equipment and training services are sustained for long-term use, MNSTC-I advisors and trainers from all functional teams and directorates will need to continue to focus on assisting the Iraqis as they develop plans for sustaining these items.

Last, although the GOI's funding for its security forces has increased for the last two years and is expected to outpace U.S. contributions going forward, MNSTC-I's internal documentation of cost-sharing negotiations and arrangements is insufficient. Without a clearer understanding of these arrangements and how they are made—including the factors considered—transparency and accountability may be lost. Furthermore, as MNSTC-I advisors and trainers rotate in and out of Iraq, the lack of internal documentation regarding how and why these agreements were made could affect the long-term success of the agreements. Consequently, SIGIR believes that the cost-sharing negotiation process, the results of that process, and the rationale for using ISFF rather than GOI funds should be better documented.

## **Recommendations**

SIGIR recommends that (1) the MNSTC-I Commanding General direct that a process be developed to internally document discussions with the GOI regarding funding arrangements, the results of those discussions, and the rationale for using ISFF instead of GOI funds for major requirements. SIGIR further recommends that, (2) as part of this process and to the extent practical, MNSTC-I continue to engage with the GOI and help it develop plans to ensure that equipment and training support funded with ISFF appropriations is sustained.

## **Management Comments and Audit Response**

In commenting on a draft of this report, MNSTC-I disagreed with SIGIR's recommendation to document its discussions with the GOI on cost-sharing arrangements, discussion results, and the rationale for using ISFF instead of Iraqi funds. Specifically, MNSTC-I stated that it documents cost-share agreements by including anticipated cost-shares in its spending plans and by keeping



records of Iraq's funding contributions. MNSTC-I also disagreed that the perceived lack of documentation could affect future mission success<sup>3</sup>, given its success in obtaining GOI's commitment to increase cost-sharing. Last, MNSTC-I believes that the draft report did not adequately stress the positive trend in cost-sharing initiatives with the GOI.

SIGIR agrees with MNSTC-I regarding the positive trend in cost-sharing agreements with the GOI and this report reflects that point. However, we continue to believe, as discussed below, that our recommended action will improve management control over the program and promote transparency. Consequently, the recommendation remains in our final report.

While SIGIR agrees that MNSTC-I's spending plans show the GOI's expected share of the costs for some requirements, the plans do not adequately show the rationale for using ISFF rather than Iraqi funds. For example, SIGIR's review of available documentation found that only a small number of the requests to use ISFF contained a written justification for the decision and none of these justifications were more than a few sentences. SIGIR also found little documentation of the discussions that had occurred. SIGIR believes that the limited records on the cost-sharing agreements MNSTC-I has reached with the GOI combined with MNSTC-I's staff rotations has the potential to affect the long-term success of the agreements. Moreover, the absence of consistent procedures for documenting how these funding arrangements are made—including the factors considered—creates a lack of transparency and accountability.

In addition, the Office of the Secretary of Defense (Comptroller) provided comments on a draft of this report. Specifically, it stated that because the funds for FY 2009 ISFF have not been released and the requirements have not yet been executed, it is premature to estimate that \$730 million of ISFF will remain available at the end of FY 2009. The Comptroller's office also stressed FY 2009 ISFF spending plans have not been approved and therefore, the discussion on its use may also be premature. SIGIR acknowledges that the FY 2009 ISFF spending plans have not been approved and that the funds have not been released for spending. Nevertheless, in anticipation of the approval and release of funds, MNSTC-I had developed plans to obligate the funds once they are released. While these plans will likely change throughout the year, at the time SIGIR completed its field work, these plans showed that MNSTC-I had about \$730 million of ISFF available for which no requirements have been identified. SIGIR incorporated other comments provided by the Comptroller's office in the final report as appropriate.

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<sup>3</sup> While SIGIR stated in its draft report that the lack of internal documentation on cost sharing agreements may "affect the future achievement of mission success," the final report further clarifies that statement by concluding that the lack of documentation in addition to the rotation of trainers and advisors could "affect the long-term success of the agreements."

# Introduction

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Since 2005, Congress has appropriated \$18.04 billion to the Iraqi Security Forces Fund (ISFF) to allow the Commander, Multi-National Security Transition Command–Iraq (MNSTC-I), to provide assistance to the Iraqi Security Forces (ISF) including equipment, supplies, services, training, facility and infrastructure repairs, renovations, and construction. The ISF comprises the Police Service, the National Police, and the Directorate of Border Enforcement under the Ministry of Interior; the Ground Forces (Army), the Navy, the Air Force, and Support Forces, under the Ministry of Defense; and the Special Operations Forces under the Counter-Terrorism Bureau.

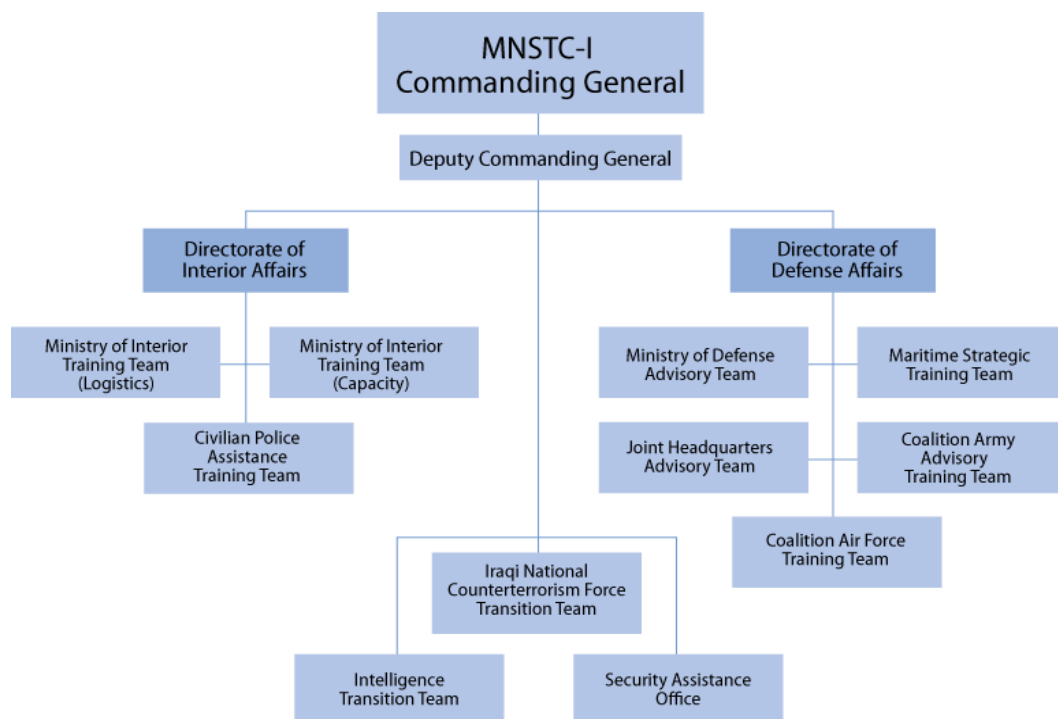
SIGIR issued a report in July 2008 addressing congressional concerns about the continued use of ISFF for infrastructure projects. The report concluded that although the Government of Iraq (GOI) had increasingly contributed to the development of its security forces, ISFF-supported projects would likely continue into 2010. Since then, the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 (NDAA) became public law. This Act not only prohibits the use of U.S. funds for facilities projects in Iraq, but also requires that MNSTC-I ensure that Iraqi funds are used to pay for the cost of training, equipping, and sustaining the ISF.

## Background

In January 2007, the President announced a U.S. strategy, the *New Way Forward*, to stem the violence in Iraq and help the Iraqi government foster conditions for national reconciliation. As part of this strategy, the administration reasserted the desired end state for Iraq: a unified, democratic, federal Iraq that can govern, defend, and sustain itself and is an ally in the war on terror. The United States continues to pursue this goal along political, security, economic, diplomatic, and rule of law lines of operations. Regarding security, the goal is to increase the Iraqis' capacity to secure their country through the development of the ISF.

National Security Presidential Directive No. 36–United States Government Operations in Iraq–assigns responsibility for organizing, equipping, and training Iraqi security forces to the Commanding General, U.S. Central Command. The Central Command's subordinate command, the Multi-National Force-Iraq (MNF-I), leads this effort. MNF-I's major subordinate commands–MNSTC-I and the Multi-National Corps-Iraq–have integral roles in developing and training the ISF. In particular, MNSTC-I's functional teams and directorates assist the Iraqi government in developing, organizing, training, equipping, and sustaining the ISF. These functional teams and directorates are organized to align with elements of the ISF (shown in Figure 1.)

**Figure 1: MNSTC-I Organization of Functional Teams and Directorates**



Source: MNSTC-I.

To achieve its mission, MNSTC-I uses ISFF appropriations to train and equip the Iraqi Security Forces. When authorized, these funds historically have been available for obligation for two years.<sup>4</sup> In the FY 2009 ISFF appropriation, however, the funds cannot be used for new obligations after one year. The first ISFF appropriation was provided on May 11, 2005, through the Emergency Supplemental Appropriations for Fiscal Year 2005 (Public Law 109-13) and totaled approximately \$5.49 billion. In subsequent years, an additional \$12.55 billion was appropriated. Table 1 shows all funds appropriated to the ISFF, the amounts obligated as of November 30, 2008, and the appropriations' expiration dates.

<sup>4</sup> Because ISFF appropriations are historically available for two years, the report will refer to funds provided in FY 2008 as FY 2008/FY2009. However, the FY 2009 ISFF is available for one year; it will be referred to as FY 2009 ISFF appropriation.

**Table 1: ISFF Appropriations and Obligations, as of November 30, 2008  
(\$ billions)**

<b>Public Law</b>	<b>Date of Enactment</b>	<b>Amount Appropriated</b>	<b>Obligated</b>	<b>Available Until</b>
109-13	May 11, 2005	\$5.49 <sup>a</sup>	\$5.37	Already expired <sup>b</sup>
109-234	June 15, 2006	3.01	2.86	Already expired <sup>b</sup>
109-289	September 29, 2006	1.70	<sup>c</sup>	Already expired <sup>b</sup>
110-28	May 25, 2007	3.84	5.53 <sup>c</sup>	Already expired <sup>b</sup>
110-161	December 26, 2007	1.50	<sup>d</sup>	September 30, 2009
110-252 (FY 08)	June 30, 2008	1.50	.55 <sup>d</sup>	September 30, 2009
110-252 (FY 09)	June 30, 2008	1.00	-	September 30, 2009
<b>Total</b>		<b>\$18.04</b>	<b>\$14.31</b>	

**Notes:**

**a** Excludes \$210 million transferred to Operations and Maintenance, Army, to reimburse the Army for costs incurred relating to the Iraqi Security Forces, but includes \$99 million for a regional training center in Jordan.

**b** Under Title 31, United States Code, section 1553, expired funds remain available to the agency for appropriate adjustments to obligations. These are considered “in scope” adjustments. Under Title 31, United States Code, section 1552, at the end of the fifth fiscal year after the period of availability ends, the account is closed and any remaining unobligated balance in the account is cancelled.

**c** Obligated funds appropriated under P.L. 109-289 and P.L. 110-28 are accounted for together because they expire at the same time.

**d** Obligated funds appropriated under P.L. 110-161 and P.L. 110-252 (FY 08) are accounted for together because they expire at the same time.

Source: SIGIR’s analysis of data provided by MNSTC-I and Assistant Secretary of the Army (Financial Management and Comptroller).

MNSTC-I programs ISFF expenditures by the following four major sub-activity groups: (1) sustainment, (2) infrastructure, (3) equipment and transportation, and (4) training and operations.<sup>5</sup> (See Appendix B for types of ISFF-funded projects within each sub-activity group.) As of November 30, 2008, about \$6.5 billion (36.2%) of all ISFF appropriations had been programmed for equipment and transportation support, which represents the largest share of the four sub-activity groups. Infrastructure projects make up the second largest portion of ISFF use, at an estimated cost of \$4.7 billion, or 26.0% of total ISFF appropriations. Table 2 summarizes the ISFF programmed by sub-activity groups for FYs 2005-2009.

<sup>5</sup> MNSTC-I also has an “associated activities” spending category in which expenditures for the Multi-National Corps-Iraq’s Quick Response Fund, the Prosthetic Clinic in Baghdad, and training of correctional officers at detention centers, among others, are included.

**Table 2: ISFF Programmed by Sub-activity Group, as of November 30, 2008 (\$ billions)**

Sub-Activity Group	Fiscal Years 2005-2009	
	Programmed <sup>a</sup>	% of Total ISFF
Sustainment	\$2.60	14.4%
Infrastructure	4.70	26.0%
Equipment and Transportation	6.53	36.2%
Training and Operations	3.13	17.3%
Other Associated Activities	1.08	6.0%
<b>Total</b>	<b>\$18.04</b>	<b>100.0%<sup>b</sup></b>

**Note:**

a. Spending plans for FY 2009 have been submitted to the Office of the Secretary of Defense for review, but they have not been approved and the funds have not been released. Therefore, SIGIR used the FY 2009 spending plans provided by MNSTC-I to complete the table since this was the best information available at the time.

b. Numbers do not add due to rounding.

Source: SIGIR's analysis of data provided by MNSTC-I and Assistant Secretary of the Army (Financial Management and Comptroller).

## Objectives

As noted earlier, SIGIR's July 2008 report addressed the continued use of the ISFF for infrastructure projects in Iraq. Given the restrictions on the use of FY 2009 ISFF appropriated funds for infrastructure projects and the guidance provided in NDAA for FY 2009, SIGIR completed this more extensive report examining MNSTC-I's use of ISFF appropriations for all major sub-activity groups. This report evaluates information on:

- MNSTC-I's use of appropriated funds and spending plans for remaining unobligated funds,
- MNSTC-I's process for making ISFF spending decisions, and
- the relationship of U.S. to Iraqi spending for the Iraqi Security Forces.

For a discussion of the audit scope and methodology, see Appendix A. For types of ISFF funded projects within each sub-activity group, see Appendix B. For definitions and acronyms used, see Appendix C. For a list of the audit team members, see Appendix D. For MNSTC-I's management comments, see Appendix E.

# **Status of U.S.-Appropriated Iraq Security Forces Fund**

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As noted earlier, as of November 30, 2008, the Congress had appropriated \$18.04 billion to the ISFF, of which \$14.3 billion has been obligated. Of the remaining \$3.7 billion in unobligated funds, about \$277.1 million has expired but can be used for cost adjustments to previously awarded contracts. The remaining \$3.5 billion is available for new obligations through September 30, 2009, when all remaining unobligated ISFF appropriations will expire. At that point, unless additional funds are appropriated, or the FY 2009 ISFF expiration date is extended, MNSTC-I will have no ISFF appropriations available for new obligations.

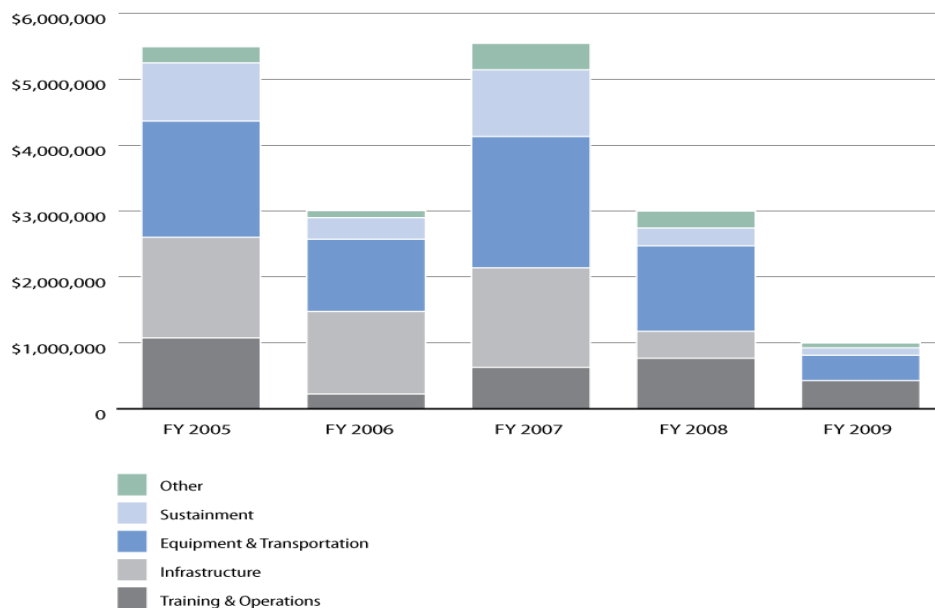
ISFF appropriations have also declined over the last few years and the distribution among sub-activity groups has changed. Because the Congress prohibited the use of FY 2009 ISFF appropriation for infrastructure projects, planned infrastructure expenditures have been reduced. MNSTC-I plans to use most of the remaining FY 2008/FY2009 and FY2009 unobligated funds for equipment and training, and a portion of the funds for infrastructure and sustainment projects. However, after accounting for its needs through FY 2009, MNSTC-I has about \$730 million for which no requirements have been identified.

## **Iraq Security Forces Fund Use Over Time**

ISFF appropriations have declined over the last few years with about \$5.5 billion provided for FY 2007/FY 2008, \$3 billion for FY 2008/FY 2009, and \$1 billion for FY 2009. In addition, the focus of ISFF expenditures has varied over time. For example, funds used for sustainment have ranged from 9.0% to 18.3% of available ISFF appropriations in the past four years. Funds used for training, on the other hand, have increased as a percentage of available ISFF from 7.5% in FY 2006 to 42.8% planned in FY 2009. Spending plans for FY 2009 have been submitted to the Office of the Secretary of Defense for review, but they have not been approved and the funds have not been released. Therefore, SIGIR used the FY 2009 spending plans provided by MNSTC-I in its analysis since this was the best information available at the time.

Funds used for equipment and transportation purchases remain significant, averaging between 32.1% and 43.2% of programmed funds. Funds used for infrastructure development reached a high of 41.7% in FY 2006, but such use will stop with the FY 2009 ISFF appropriation because of the congressional restrictions placed on its use. Figure 2 shows MNSTC-I's use of programmed appropriated funds by sub-activity group for each fiscal year. Figure 3 shows the use of these funds as a percentage of the funds appropriated by fiscal year.

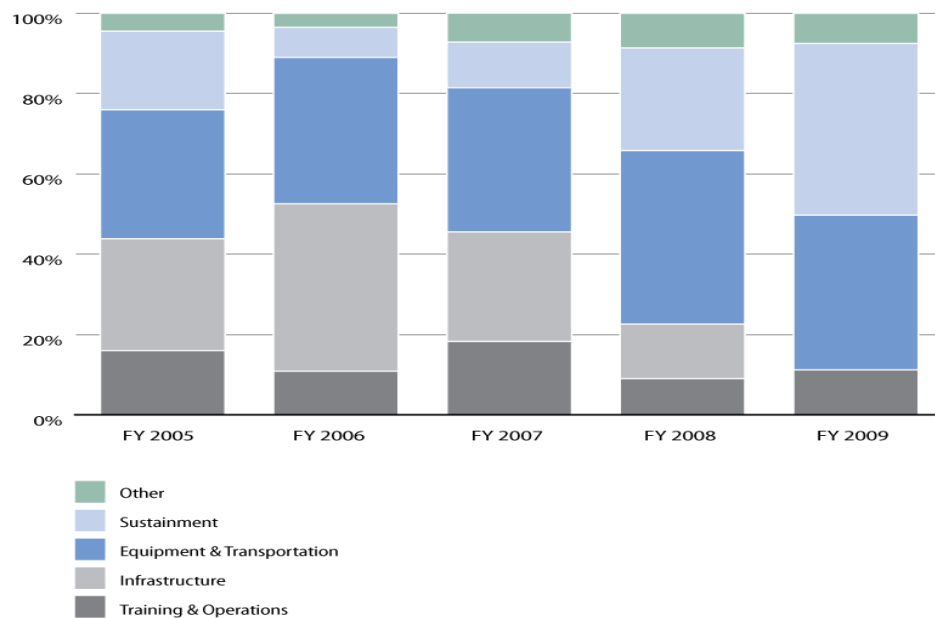
**Figure 2: ISFF Programmed, by Sub-activity Group and Fiscal Year, as of November 30, 2008\***



\*Programmed funds for FY 2009 were provided by MNSTC-I as of October 30, 2008.

Source: SIGIR's analysis of data provided by MNSTC-I and the Assistant Secretary of the Army (Financial Management and Comptroller).

**Figure 3: Percentage of ISFF Programmed, by Sub-Activity Group and Fiscal Year, as of November 30, 2008\***



\*Programmed funds for FY 2009 were provided by MNSTC-I as of October 30, 2008.

Source: SIGIR's analysis of data provided by MNSTC-I and Assistant Secretary of the Army (Financial Management and Comptroller).



## Spending Plans for FY 2008 and FY 2009 ISFF Appropriations

The Congress appropriated \$4 billion to the ISFF for use in both FY 2008 and FY 2009. As of November 30, 2008, MNSTC-I had about \$3.5 billion available for new obligations through September 30, 2009, after which time the obligation authority for using these funds will expire. Table 3 shows that MNSTC-I plans to use most FY 2008/FY 2009 and FY 2009 appropriations to purchase equipment and provide training to the Iraqi Security Forces. Specifically, about \$1,681 million, or 42 %, is programmed for equipment purchases; about \$1,196 million, or about 30%, is programmed for training support; about \$382 million, or 9.5%, is for sustainment support; and about \$333 million, or 8.3%, is for associated activities, including emergent requirements that are paid from the Quick Response Fund, which is part of the ISFF appropriations.<sup>6</sup> Due to the congressional restrictions on the use of the FY 2009 ISFF appropriation for infrastructure projects, almost \$409 million, or 10.2%, planned for infrastructure development comes from the FY 2008/FY 2009 appropriation.

**Table 3: ISFF Programmed for FY 2008 and FY 2009<sup>a</sup> by Sub-Activity and Iraq's Security Ministries, as of November 30, 2008<sup>a</sup> (\$ Millions)**

Sub-Activity Group	Ministry of Defense	Ministry of Interior	Total	% Total
Equipment	\$1,163.0	\$517.6	\$1,680.6	42.0%
Training	314.9	881.0	1,195.9	29.9%
Infrastructure	298.5	110.0	408.50	10.2%
Sustainment	255.7	126.0	381.70	9.5%
Associated Activities	n/a	n/a	333.30	8.3%
<b>Total</b>			<b>\$4,000.00</b>	<b>100.00%<sup>b</sup></b>

**Note:**

a. Programmed funds for FY 2009 were provided by MNSTC-I as of October 30, 2008.

b. Percents do not add due to rounding.

Source: SIGIR's analysis of data provided by MNSTC-I and the Assistant Secretary of the Army (Financial Management and Comptroller).

### *Spending Plans for Equipment Purchases*

In its FY 2008 and FY 2009 spending plans, MNSTC-I programmed about \$1,681 million, or 42.0% of its ISFF funds, to buy equipment to support the security forces at Iraq's Ministries of Defense and Interior. For Ministry of Defense forces, MNSTC-I programmed almost \$1,163 million to purchase equipment for Iraq's Army, Air Force, and Navy. In particular, equipment requests for Iraq's Army for FY 2009, as of September 2008, totaled more than \$350 million and included vehicles such as fuel tankers and light-armored vehicles; equipment in support of the service regiments, emergency chemical response teams, and bridging companies; and various equipment needed to increase the Army's unit readiness. For the Iraqi Air Force, equipment requests for FY 2009, as of November 2008, totaled about \$322 million and include items such

<sup>6</sup> The Quick Response Fund is provided by MNSTC-I to the Multi-National Corps-Iraq to meet emergent, short-notice requirements under \$1.0 million.

as an aircraft training simulators; communications networks and information management systems; light attack aircraft; and long-range radar. For the Iraq's Navy, MNSTC-I officials requested \$44 million for aircraft simulators, diving boats, and associated training aids to help develop Iraqi capabilities.

For the Ministry of Interior security forces, MNSTC-I programmed more than \$517 million of FY 2008/FY 2009 and FY 2009 ISFF appropriations for purchases such as explosive ordnance disposal equipment, route-clearing equipment, and armored security vehicles for the National Police; communication towers and surveillance equipment for the Directorate of Border Enforcement; and dive and boat equipment for Iraq's River Patrol. According to spending plans, the GOI is expected to contribute \$113 million to provide armored security vehicles for the National Police, while MNSTC-I estimates that it will use \$60 million of ISFF.

### ***Spending Plans for Training Support***

As of November 30, 2008, MNSTC-I had programmed almost \$1,196 million, or about 30%, of its FY 2008/FY 2009 and FY 2009 ISFF appropriations for Iraqi Security Forces training needs. Of this amount, almost \$315 million is planned to support Iraq's Ministry of Defense forces and \$881 million is for Ministry of Interior forces. To support Ministry of Defense forces, MNSTC-I plans to spend more than \$96 million for contractors to coach, teach, and mentor the Iraqi Army training cadres at the regional training centers, divisional training centers, and logistics military advisory teams. The purpose of this training is to develop the self-sufficiency and expertise necessary for the Iraqis to independently train their forces.

The \$881 million programmed for training Ministry of Interior forces includes \$400 million to train the Iraqi Police under a contract managed by the Department of State's Bureau of International Narcotics and Law Enforcement Affairs. Under this contract, MNSTC-I transfers ISFF appropriations to the Department of State, which then provides law enforcement personnel with various specialties to support the Iraqi civilian police training program.<sup>7</sup> MNSTC-I also plans to use almost \$214 million of FY 2009 appropriations to support this contract. According to its FY 2008 spending plan, GOI will not use funds to support this requirement.

### ***Spending Plans for Infrastructure Projects***

The Congress restricted the use of the FY 2009 ISFF for infrastructure projects. Thus, none of the \$1 billion provided to MNSTC-I can be used for this purpose. However, the \$409 million programmed for infrastructure projects with the FY 2008/FY 2009 ISFF appropriation is available for such expenditures. Of this amount, MNSTC-I has programmed almost \$299 million and \$110.0 million for infrastructure projects supporting Iraq's defense and interior security forces, respectively. Because of congressional concerns over the use of ISFF appropriations to support infrastructure projects, the MNSTC-I Commanding General retains the approval authority for all infrastructure projects using ISFF.

In its spending plans submitted November 4, 2008, MNSTC-I's Directorate of Defense Affairs requested \$197.7 million to support 13 new infrastructure projects for Iraq's defense security forces. MNSTC-I Commanding General approved nine of these projects at an estimated total

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<sup>7</sup> See SIGIR-07-016, *Interim Review of DynCorp International, LLC, Spending Under Its Contract for the Iraqi Police Training Program*, October 23, 2007, for information on a prior SIGIR audit in this area.

cost of \$139.9 million, disapproved two projects worth \$43.8 million, and placed two projects valued at \$14.0 million on hold. Some of the approved requirements include infrastructure improvements at Taji and new Al Muthana air bases at an estimated cost of \$70.3 million and construction of an Improvised Explosive Device Center of Excellence at Besmaya at an estimated cost of \$1.6 million. The MNSTC-I Commanding General disapproved requests to build division training centers at various locations throughout Iraq in part because he wanted the Iraqis to share the funding of these requirements.

To support Iraq's Ministry of Interior forces, MNSTC-I's Directorate of Interior Affairs submitted an infrastructure spending plan on November 11, 2008, and requested funds for 11 requirements at an estimated cost of \$106.1 million. Some of the requested funds will be used to build new structures and some will be used to refurbish and improve existing structures. The plan also indicated that the GOI would contribute \$486.6 million to these infrastructure projects. The MNSTC-I Commanding General approved \$53.4 million to build 50 provincial police stations throughout Iraq to support the Iraqi Police force, provided that land deeds are obtained for the stations. These funds will also pay for the refurbishment of 15 Baghdad police stations and five Basra joint security stations. The GOI is expected to contribute \$91.1 million toward this effort. In addition, the Commanding General also approved \$10.0 million to build a training academy in Wasit Province for Iraq's Facility Protection Service that will serve 1,500 students. The GOI is expected to contribute \$16.7 million to this project.

#### ***Spending Plans for Sustainment Support***

MNSTC-I programmed almost \$382 million of the FY 2008/ FY 2009 and FY 2009 ISFF appropriations for sustainment needs. Of this amount, almost \$256 million is programmed to support Ministry of Defense forces and \$126 million will support Ministry of Interior forces. For the Ministry of Defense forces, part of the ISFF appropriations will be used to support the up-armored High Mobility Wheeled Multipurpose Vehicle refurbishment and expansion program, the Iraqi Army maintenance program, the Abrams tank support package, and the maintenance and life support of the Iraqi Light Armored Vehicle program. To support Ministry of Interior forces, part of \$126 million is programmed to provide security at the Baghdad Police College, sustainment support to the National Police 3<sup>rd</sup> and 4<sup>th</sup> Divisions, support to the High Mobility Multipurpose Wheeled Vehicle inspection and repair program, and life support at the Basra Training Center.

#### ***Spending Plans for Other Associated Activities***

MNSTC-I programmed about \$333 million of FY 2008/FY 2009 and FY 2009 ISFF appropriations in the "associated activities" sub-activity group. According to its spending plans, these funds will be used to support the theater internment facility/reintegration center at Taji, which will be Coalition-run with Iraqi officers handling detainees; investments in the Baghdad Prosthetic Clinic; training of Iraqi correctional officers to handle detainees; and emergent requirements that are paid from the Quick Response Fund.

### **Requirements Not Identified for \$730 Million of ISFF**

Although MNSTC-I has programmed \$4 billion in ISFF to be obligated by September 30, 2009, to provide sustainment, training, equipment, and infrastructure support to the Iraqi Security

Forces, officials estimated that as of November 13, 2008, they had identified \$3.27 billion that could be used to support requirements before end of FY 2009. This leaves approximately \$730 million that may be used to meet new requirements that are identified in FY 2010. To enable the use of these funds for requirements identified for FY 2010, however, MNSTC-I officials are seeking a legislative change to the FY 2009 ISFF appropriation that would extend the fund expiration date to September 30, 2010. MNSTC-I officials stated that if the change is approved, they will be able to apply the \$730 million toward future requirements and may not need the second \$1.0 billion of the \$2.0 billion it requested in its FY 2009 ISFF budget submission. Table 4 shows the requirements MNSTC-I identified and funds programmed and needed for fiscal years 2008 and 2009.

**Table 4: Requirements Identified for Use of FY 2008/FY 2009 and FY 2009 ISFF Appropriations, as of November 13, 2008 (\$ Millions)**

<b>Sub-activity Group</b>	<b>Programmed<sup>a</sup></b>	<b>Current Requirements</b>	<b>Available for Future Requirements</b>
Sustainment	\$373	\$359	\$14
Equipment	1,693	1,566	127
Training	1,193	901	292
Infrastructure	409	302	107
Associated Activities	332	142	190
<b>Total</b>	<b>\$4,000</b>	<b>\$3,270</b>	<b>\$730</b>

**Note:**

a. MNSTC-I provided this data as of November 13, 2008, whereas funding data provided by the Assistant Secretary of the Army (Financial Management and Comptroller), shown elsewhere in the report, is dated as of November 30, 2008. Due to the time lag, some programmed amounts may not match.

Source: MNSTC-I.

MNSTC-I officials explained that changes in program plans resulted in fewer requirements and lower costs, which contributed to the estimated \$730 million that can be used for future requirements, as shown in Table 4. For example, MNSTC-I programmed \$1,193 million for training, but currently identified requirements are estimated to cost only \$901 million, resulting in the possible availability of \$292 million. Similarly, MNSTC-I programmed almost \$409 million for infrastructure projects, but current requirements total \$302 million, leaving \$107 million available. Last, MNSTC-I programmed about \$332 million for “associated activities” but is currently expected to use only \$142 million, leaving \$190 million that could be made available to meet other requirements. MNSTC-I plans to reduce expenditures using the Quick Response Fund from \$150 million to \$75 million programmed for FY 2009. In addition, MNSTC-I plans to use only \$64 million of the \$179 million it had programmed to support requirements related to training Iraqi correctional officers in 2009.

# **MNSTC-I Has Process for Developing Spending Plans, but Decisions on Using ISFF Instead of GOI Funds Are Not Well Documented**

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To determine and prioritize requirements within individual spending plans, MNSTC-I's functional teams and directorates reportedly consider several factors, including operational orders and priorities, spending criteria and funding guidance, and input from Iraq's Ministries of Defense and Interior. However, the MNSTC-I Commanding General is the final arbiter for all funding decisions. MNSTC-I officials stated that decisions to use U.S. rather than Iraqi funds are made mostly through negotiations with senior Iraqi officials, wherein they encourage greater Iraqi spending in accordance with the FY 2009 NDAA guidance. However, the process of negotiating cost-sharing and the results of the negotiations are not well documented internally. Furthermore, although MNSTC-I encourages the GOI to adhere to its agreements, it cannot compel compliance.

## **Multiple Factors Considered in Determining and Prioritizing Requirements within Annual Spending Plans**

MNSTC-I's functional teams and directorates consider multiple factors when determining and prioritizing requirements within their annual spending plans, including (1) MNSTC-I's operational orders, (2) funding guidance issued by the MNSTC-I's Commanding General, (3) the spending criteria issued by MNSTC-I's leadership, (4) the Multi-National Corp-Iraq's operational priorities, and (5) input from Iraq's Ministries of Defense and Interior. According to MNSTC-I officials, the functional teams and directorates simultaneously consider all five of these factors when developing their annual spending plan (see Figure 4).

***MNSTC-I's Operational Orders*** – MNSTC-I's operational orders include specific goals for the Command to achieve. According to MNSTC-I officials, the operational orders are derived from the Joint Campaign Plan and MNF-I's operational orders, and contain four desired outcomes, called "conditions." Each condition includes between three to six objectives, which in turn, include tasks for specific directorates, teams, or staff offices. The four desired conditions in MNSTC-I's 2008 operational orders are as follows:

- **Condition 1:** "ISF force generation on track – Synchronize force management functions to field combat formations and police forces to meet objectively defined strategic requirements on time."
- **Condition 2:** "ISF capability to operate independently improved – Ensure forces have the trained leaders, logistics, combat enablers, and key capabilities to operate independently."
- **Condition 3:** "Iraqi security institutional performance improved – Develop GOI capability to effectively perform key force management functions."

- **Condition 4:** “Professionalism strengthened and sectarianism reduced – Develop an ISF with requisite expertise and legitimacy, whose members adhere to ethical values and corporate standards of conduct.”

***MNSTC-I Funding Guidance*** – In August 2008, the MNSTC-I Commanding General issued funding guidance that articulated to the functional teams and directorates the FY 2009 goals and priorities for use of the ISFF. Specifically, the guidance states that in developing their annual spending plans, the teams should focus on the following four priorities: (1) completing the counter-insurgency force; (2) building a logistics system to sustain the counter-insurgency force; (3) providing force enablers; and (4) modernizing the force.

***MNSTC-I Spending Criteria*** – To further ensure that ISFF is spent to meet the appropriate priorities, five spending criteria were also issued to the directorates and functional teams for consideration when developing their spending plans. According to MNSTC-I officials, each ISFF requirement must meet at least one of five spending criteria. They are:

1. *Increase GOI/MNSTC-I spending ratio.*
2. *Influence GOI to spend its money quickly and wisely.*
3. *Buy what we need, not what they want, in order to support, reinforce, and sustain current progress, and build on success.*
4. *Accelerate Iraqi capabilities to allow Coalition forces to be reduced.* MNSTC-I officials also refer to this as “spend to save” since, according to MNSTC-I officials, Coalition resources are more expensive than Iraqi resources.
5. *Set conditions for a long-term strategic relationship with Iraq to enhance U.S. national interests.*

***Multi-National Corp-Iraq’s Operational Priorities and Input*** – According to Multi-National Corps-Iraq officials, its operational priorities are based on the advice and knowledge of over 500 transition and training teams who work with the Iraqi Security Forces. In addition, if the transition teams determine that a requirement is important to meet operational needs but cannot be funded through Iraqi channels, they ask MNSTC-I to consider the use of ISFF to fund the requirement. Every two weeks, Multi-National Corps-Iraq and MNSTC-I officials hold a ‘fusion meeting’ to discuss these requirements. According to MNSTC-I officials, the Multi-National Corps-Iraq operational priorities are given great weight when developing ISFF funding plans.

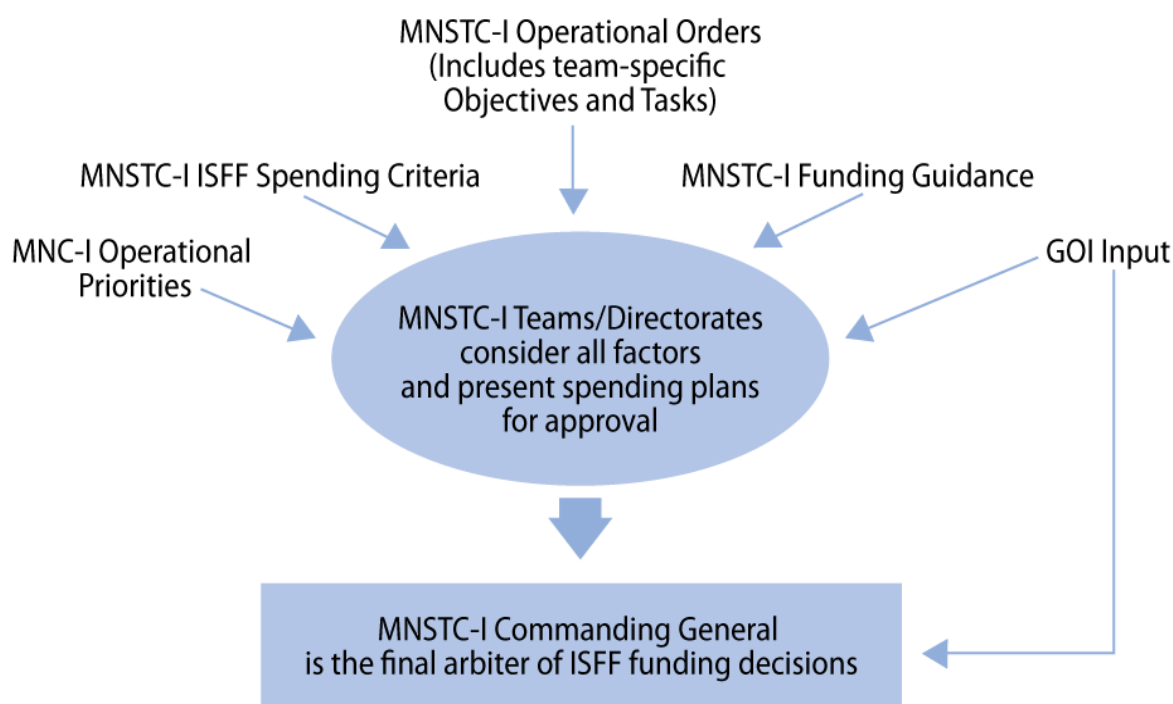
***Iraq’s Ministries of Defense and Interior Input*** – MNSTC-I leadership interacts with Iraqi counterparts to determine the GOI’s needs and to negotiate agreements on U.S.-GOI burden sharing for funding the Iraqi Security Forces.

## **MNSTC-I Commanding General Is Final Arbiter of ISFF Funding Decisions**

Once requirements are developed and prioritized, MNSTC-I’s functional teams and directorates submit their ISFF spending plans to the Commanding General, who makes all final funding and program decisions. According to MNSTC-I officials, the Commanding General considers

relevant strategic and operational factors before deciding whether to approve or disapprove a relatively large funding requirement and weighs in on small requirements if political or other mitigating factors are involved. After approval of the spending plans, each directorate meets with the Commanding General every two months throughout the fiscal year to discuss updates, changes, and problems with its spending plans. This process allows for changing priorities as the year progresses and the impact is evaluated. Figure 4 outlines the MNSTC-I process for making ISFF spending decisions.

**Figure 4: Process for Making ISFF Funding Decisions**



Source: SIGIR's analysis of data provided by MNSTC-I.

## **Agreements to Use ISFF Instead of GOI Funds Are Negotiated at a High Level, but the Process is Not Well Documented Internally**

According to MNSTC-I officials, decisions on the use of ISFF rather than GOI funds are made in high-level negotiations with Iraqi officials. In general, the process for determining who will pay for each requirement begins when the head of each MNSTC-I directorate or team and his Iraqi counterpart discuss the capabilities that MNSTC-I believes the GOI needs. If the Iraqis agree, the head of the team advises his Iraqi counterpart on the specific requirements that the Iraqis need to achieve that capability. In some cases, MNSTC-I presents options.

After both sides agree on which requirements should be funded, senior MNSTC-I and GOI officials negotiate who will pay for each requirement. For the most expensive or strategically important requirements, MNSTC-I's senior leadership negotiates directly with the Iraqi Minister



of Defense or Minister of Interior; however, neither the process nor the results of high-level negotiations are well documented internally. Consequently, while MNSTC-I officials stated that all relevant strategic and operational factors are considered during the negotiation process, SIGIR is unaware of how each individual cost-sharing arrangement is made or what specific factors are involved. For example, in the course of negotiations with GOI officials, MNSTC-I senior leadership agreed to pay 94% of the \$57 million cost to equip an Iraqi transportation company. Yet, in another instance MNSTC-I agreed to pay only 29% of the cost to equip 13 logistics hubs, which cost approximately \$285 million. Without any internal documentation on the negotiation process or the results of that process, SIGIR is unable to determine the rationale for these different spending ratios.

Once U.S. and Iraqi officials agree on the funding arrangement, MNSTC-I's functional teams create their annual spending plans, which reflect an expectation that GOI will meet its commitments. For example, in its FY 2009 spending plan, the Coalition Army Advisory Transition Team asked for approximately \$451 million of ISFF to support requirements, with the expectation that the GOI would also spend about \$354 million. Similarly, the Coalition Air Force Training Team requested approximately \$379 million in ISFF based on Iraq's projected expenditure of approximately \$2 billion. Part of the GOI's expenditures includes purchases of equipment and services through the U.S. Foreign Military Sales Program or direct purchases from other sources. Table 5 shows selected MNSTC-I and GOI spending agreements.

**Table 5: Estimated ISFF and GOI Spending in FY 2009 by Selected MNSTC-I Teams and Directorates (\$Millions)**

<b>MNSTC-I Team/Directorate</b>	<b>U.S. Funding</b>	<b>GOI Funding</b>
Coalition Army Advisory Transition Team	\$451 <sup>a</sup>	\$354 <sup>a</sup>
Coalition Air Force Training Team	379 <sup>b</sup>	2,000 <sup>b</sup>
Directorate of Interior Affairs	562 <sup>c</sup>	2,137 <sup>c</sup>
Maritime Strategic Training Team	44 <sup>d</sup>	330 <sup>d</sup>

**Notes:**

1. Table does not include all MNSTC-I functional teams and directorates. Appendix A provides information on the scope and methodology for these selections.

2. According to MNSTC-I officials, estimates are generated during spending plan development and are updated and refined throughout the fiscal year.

**a** As of September 13, 2008.

**b** As of November 23, 2008.

**c** As of September 24 2008.

**d** No date was provided on the spending plan. However, MNSTC-I provided SIGIR the information on November 17, 2008.

Source: MNSTC-I.

MNSTC-I officials said that while they encourage the GOI to adhere to these agreements, they cannot compel the GOI to comply. For example, MNSTC-I and GOI agreed to share funding for two police colleges. As part of this agreement, \$26.7 million in ISFF was used to build the Baghdad Police College-North in Mosul, while the GOI was to fund and build the Baghdad Police College-South in Basra. However, as of December 2008, construction had not begun on the southern police college. MNSTC-I officials stated that the GOI provided various reasons why construction had not begun, including problems with ministerial approval and contractual procedures. To maintain progress on force generation and reduce the use of Coalition forces to

perform police duties, MNSTC-I continued building the northern police college even though GOI was not meeting its agreement.

According to officials, since MNSTC-I is not empowered to commit the United States to binding bilateral agreements, they use other means to encourage the GOI to adhere to cost-sharing arrangements. Its primary mechanism for doing so is leadership engagement at the ministerial and sometimes prime ministerial level. In addition, MNSTC-I officials stated that U.S. funding is sometimes contingent on the GOI's purchase of U.S. equipment. For example, MNSTC-I senior leadership negotiated to purchase an aircraft training simulator costing \$50 million if the GOI spends \$965 million to purchase six C-130J transport aircraft for which the simulator is designed. While the GOI did not identify the simulator as a necessary requirement, MNSTC-I officials stated they would not purchase the simulator if the GOI did not agree to purchase the C-130Js from the United States. Further, MNSTC-I officials stated they could terminate projects, cease contracts in progress, and de-obligate funds if the GOI does not follow through on a negotiated agreement.

## **GOI's Funding Contributions Increasing, but MNSTC-I Expects Priorities Will Likely Necessitate Continued ISFF Use**

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As seen in the last two years, GOI's contribution to the Iraqi Security Forces development has greatly increased while U.S. funding has decreased. To continue this trend, MNSTC-I works with the GOI to increase its security contribution and decrease the U.S. investments. Through foreign military sales and donor fund programs in which Iraqi funds are managed by MNSTC-I, the GOI is expected to spend almost \$16 billion (not including pay for its military personnel) by the end of calendar year 2009, although this amount is still less than the cumulative ISFF contribution over the same time period. Available data indicate that the ratio of Iraqi to U.S. spending increased last year, and Iraq is expected to spend almost three times more than the United States in 2008 and 2009. While efforts continue to shift the funding burden to the Iraqis, MNSTC-I expects that it will continue to need ISFF funds to more fully develop the Iraqi Security Forces' capabilities. To achieve this objective, MNSTC-I shifted its spending priorities and intends to use remaining ISFF funds to provide key capabilities, consolidate security gains, and foster a long-term strategic relationship with Iraq.

### **Efforts Are Underway to Increase GOI's ISF Contributions**

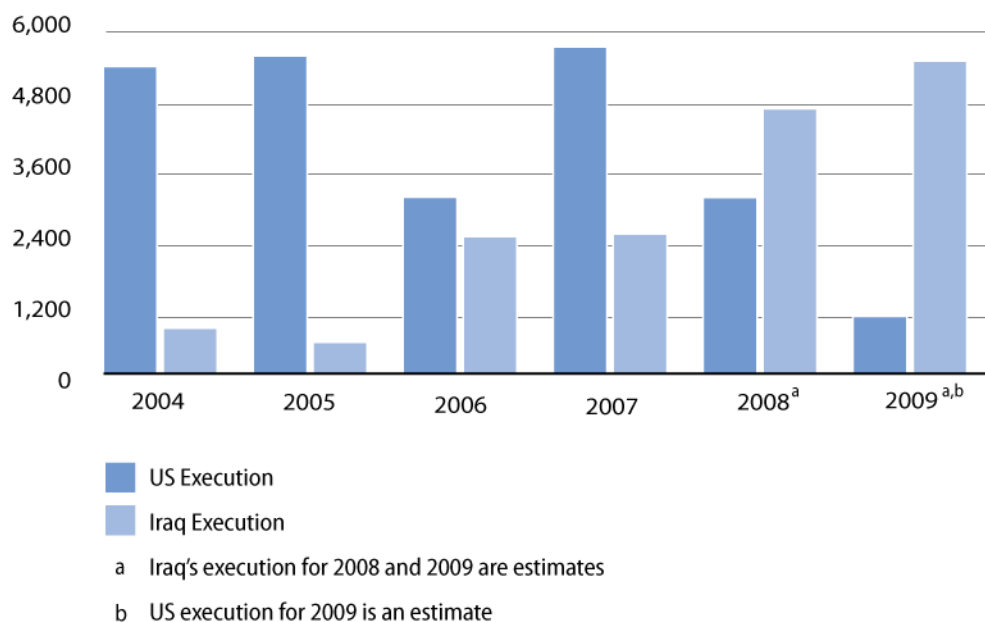
Although less than what the United States has spent through the ISFF, the GOI's funding contribution to its security forces is expected reach almost \$16 billion by the end of 2009, excluding military personnel pay.<sup>8</sup> The United States, on the other hand, is expected to spend about \$23 billion by the end of 2009. This amount includes more than \$5.0 billion from the Iraq Relief and Reconstruction Fund provided in FY 2004. It does not, however, include the second \$1.0 billion that was requested in its FY 2009 ISFF budget submission.<sup>9</sup> Further, the ratio of Iraqi to U.S. spending increased last year and Iraqi spending is expected to outpace the U.S. contribution in 2009. Specifically, it is estimated that the GOI spent approximately \$4.5 billion in 2008 and is expected to spend \$5.3 billion in 2009, a total of \$9.8 billion. (When this report was written, a few months remained in calendar 2008. Therefore, both the GOI's 2008 and 2009 security expenditures are estimates.) Comparatively, MNSTC-I expects to spend about \$3.27 billion to meet requirements for both FY 2008 and FY 2009. Figure 5 shows the U.S. and Iraqi contributions (not including military personnel pay) to the development of the ISF.

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<sup>8</sup> The ISFF appropriations are not used to pay for the ISF personnel costs. Including the cost of personnel pay for its security forces, the GOI's total contribution to the development of the ISF is estimated to reach almost \$34.8 billion by the end of 2009.

<sup>9</sup> About \$2 billion was requested for the FY 2009 ISFF, and Congress has appropriated \$1 billion to date. Until the second \$1 billion is appropriated, SIGIR is reporting that MNSTC-I is expected to obligate \$1 billion provided in the ISFF 2009 appropriations.

**Figure 5: U.S. and GOI Contributions to Iraqi Security Forces Development, without Military Personnel Pay (\$ Millions)\***



\*U.S. execution is by fiscal year while Iraq execution is by calendar year.

Source: SIGIR's analysis of data provided by MNSTC-I.

Part of the GOI's security expenditures is for the purchase of equipment and services through the U.S. Foreign Military Sales Program as well as the donor fund program. The total value of Iraq's purchases through the Foreign Military Sales Program is around \$4.60 billion, and this amount is expected to increase as MNSTC-I works with the GOI to buy more equipment and training support. In addition, the GOI is also providing funds to the ISFF to support other requirements. Public laws authorizing ISFF appropriations allow other sources of funding to be credited to the fund. In the donor fund program, the GOI provides funds to the ISFF to be used by MNSTC-I to support the Iraqi Security Forces. In one of its first projects under this concept, MNSTC-I is using \$60 million of Iraqi funds to increase the number of Iraqi armored High Mobility Multipurpose Wheeled Vehicles. In an agreement with the GOI, MNSTC-I is also contributing an additional \$45 million in ISFF to the program, bringing the total program cost to \$105 million. The program is expected to be completed by October 2009, and expenditures will include training, oversight, life support, tools, equipment, lubricants, infrastructure, and labor cost.

## **MNSTC-I Anticipates Continued Need for ISFF to Meet Operational Requirements**

MNSTC-I uses the ISFF to train and equip the Iraqi Security Forces with the goal of developing a force capable of providing security and sustaining operations without the Coalition's assistance. One of the main objectives for FY 2009 is to accelerate the development of Iraqi Security Forces' capabilities, thus reducing reliance on Coalition support and accelerating the

withdrawal of U.S. and Coalition forces. MNSTC-I officials believe that ISFF funds are still required to achieve this mission and state that there are several specific areas of continuing ISFF need. These include (1) obtaining equipment and training where MNSTC-I sees a need but the Iraqis do not, (2) ensuring that operational needs and security gains are not compromised because of slow GOI budget execution and approval processes, and (3) building a strategic relationship with Iraq, using ISFF to facilitate Iraq-funded equipment acquisitions.

### ***Funding Requirements GOI Did Not Identify***

According to MNSTC-I officials, the ISFF is sometimes used to buy equipment or services that MNSTC-I believes the Iraqis need to improve their capabilities but for which the Iraqis did not identify a requirement. For example, MNSTC-I's spending plans show that Iraq's Navy and Marine forces need simulation systems and associated training aids, valued at an estimated \$24 million, but Iraq's Minister of Defense had not identified these requirements. As noted earlier, MNSTC-I also plans to use \$50 million of ISFF for a flight simulator to support the Iraqi Air Force's purchase of six C-130J transport aircraft through the U.S. Foreign Military Sales Program. Officials stated that while preparing for the purchase of these aircraft, the Iraqis did not understand the need for a simulator, but MNSTC-I determined that they needed a simulator for training purposes. In addition, MNSTC-I plans to provide intelligence, surveillance, and reconnaissance capabilities for the Iraqi Air Force at an estimated cost of \$12 million for equipment and \$2 million for training. MNSTC-I officials stated that although their capabilities are improving, the Iraqis continue to need advanced training.

In justifying the intelligence, surveillance, and reconnaissance requirements, Coalition Air Force Training Team officials acknowledge that future costs are possible and that a long-term Iraqi commitment to fund sustainment is needed. Specifically, the Iraqis need to plan for, budget for, and commit to sustaining the equipment and training. Officials also stated that their advisors are working with the Iraqis to ensure that this is accomplished. If ISFF appropriations are used to "buy what is needed in order to support, reinforce, and sustain current progress and build on success," especially in cases where the GOI did not identify the requirement, MNSTC-I advisors from all directorates and functional teams will need to engage their Iraqi counterparts to ensure that ISFF-funded equipment is sustained.

### ***Meeting Operational Needs and Maintaining Security Gains***

According to MNSTC-I and Multi-National Corps-Iraq officials, ISFF is also used to make purchases for the GOI to ensure that operational successes and security gains are not compromised by slow GOI budget execution or approval processes. Specifically, when justifying funding for several requirements, officials stated that Iraqi funding channels sometimes cannot respond to more immediate mission requirements and that the GOI's processing time for foreign military sales purchases does not allow for quick acquisitions. MNSTC-I cited a \$25 million command and control system and a \$20 million air operations center as examples in which the GOI's processing time for foreign military sales was too slow given operational circumstances. As another example, MNSTC-I stated it will use FY 2009 ISFF for a \$50 million long-range radar system and operations center because the GOI cannot obligate funds quickly enough to meet the need.

### ***Building a Long-Term Strategic Partnership***

Last, MNSTC-I officials stated that ISFF is sometimes used to enhance the opportunity to build a long-term strategic relationship with Iraq. The GOI is expected to use the Foreign Military Sales program to meet portions of its equipment and sustainment needs in 2009 and ISFF funding is sometimes used to facilitate such acquisitions. As previously noted, MNSTC-I's purchase of an aircraft training simulator was part of an agreement in which the GOI planned to buy six C-130J transport aircraft through the Foreign Military Sales Program. The purchase of these aircraft establishes a logistics link because parts, maintenance, and other support must be maintained. Thus, the procurement enhances the opportunity to build a long-term strategic relationship through contractor logistics support. In addition, MNSTC-I stated in its budget justification for FY 2009 that "with Iraq established as a U.S. foreign military customer, [this] should assist in strengthening a mutually beneficial, economic relationship for Iraqi defense and U.S. strategic interests."

## Conclusions

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The GOI's funding for the Iraqi Security Forces has increased over the last two years due in part to MNSTC-I's efforts to encourage the Iraqi government to become more self-reliant. Funding to develop the Iraqi Security Forces has made possible the growth in the number of trained and equipped forces. MNSTC-I has been able to achieve this goal under difficult security environment. As a result of the rapid growth in forces, however, the emphasis on how ISFF appropriations are used has now shifted to providing capabilities that were not developed during the force buildup. Consequently, a large portion of the remaining ISFF appropriations will be used to purchase equipment and provide training to complete, sustain, modernize, and enable the Iraqi Security Forces.

While advisors and trainers from MNSTC-I and Multi-National Corps-Iraq work to increase, train, and equip the Iraqi Security Forces, they also work with the GOI to increase the latter's funding contribution to its security forces. By assisting the GOI in purchasing more equipment and services through foreign military sales and the donor fund program, MNSTC-I expects that it will require less U.S. funding and more GOI financial support in the next few years. At the same time, MNSTC-I and Coalition advisors are also assisting the GOI to determine and execute security-related requirements. As a result, the GOI's budget and funding execution processes have improved, which has allowed Iraq to make greater funding contributions. However, until these processes can fully support requirements, MNSTC-I anticipates that U.S. funding will be needed to ensure that the Iraqi Security Forces possess key capabilities necessary to provide security.

MNSTC-I officials acknowledge that future sustainment support is needed for some of the equipment and training services that will be purchased for the Iraqis. They also stated that helping the Iraqis in this area is a focus going forward. To better ensure that all ISFF-purchased equipment and training services are sustained for long-term use, MNSTC-I advisors and trainers from all functional teams and directorates will need to continue to focus on assisting the Iraqis as they develop plans for sustaining these items.

Last, although the GOI's funding for its security forces has increased for the last two years and is expected to outpace U.S. contributions going forward, MNSTC-I's internal documentation of cost-sharing negotiations and arrangements is insufficient. Without a clearer understanding of these arrangements and how they are made—including the factors considered—transparency and accountability may be lost. Furthermore, as MNSTC-I advisors and trainers rotate in and out of Iraq, the lack of internal documentation regarding how and why these agreements were made could affect the long-term success of the agreements. Consequently, SIGIR believes that the cost-sharing negotiation process, the results of that process, and the rationale for using ISFF rather than GOI funds should be better documented.



## **Recommendations**

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SIGIR recommends that the MNSTC-I Commanding General direct that (1) a process be developed to internally document discussions with the GOI regarding funding arrangements, the results of those discussions, and the rationale for using ISFF instead of GOI funds for major requirements. SIGIR further recommends that, (2) as part of this process and to the extent practical, MNSTC-I continue to engage with the GOI and help it develop plans to ensure that equipment and training support funded with ISFF appropriations is sustained.

## Management Comments and Audit Response

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In commenting on a draft of this report, MNSTC-I disagreed with SIGIR's recommendation to internally document discussions with the GOI on cost-sharing arrangements, discussion results, and the rationale for using ISFF instead of Iraqi funds. Specifically, MNSTC-I stated that it documents cost-share agreements by including anticipated cost-shares in its spending plans and by keeping records of Iraq's funding contributions. MNSTC-I also disagreed that the perceived lack of documentation could affect future mission success<sup>10</sup>, given its success in obtaining GOI's commitment to increase cost-sharing. Last, MNSTC-I believes that the audit report did not adequately stress the positive trend in cost-sharing initiatives with the GOI.

SIGIR agrees with MNSTC-I regarding the positive trend in cost-sharing agreements with the GOI and the report reflects that point. However, we continue to believe, as discussed more fully below, that our recommended action will improve management control over the program and promote transparency. Consequently, the recommendation remains in our final report.

While SIGIR agrees that the spending plans MNSTC-I prepares show the GOI's expected share of the costs for some requirements, the spending plans do not adequately show the rationale for using ISFF rather than Iraqi funds. For example, SIGIR's review of available documentation found that only a small number of the requests to use ISFF contained a written justification for the decision and none of these justifications were more than a few sentences. SIGIR also found little documentation of the discussions that had occurred. SIGIR believes that the limited records on the cost-sharing agreements MNSTC-I has reached with the GOI combined with MNSTC-I's staff rotations has the potential to affect the long-term success of the agreements. Moreover, the absence of consistent procedures for documenting how these funding arrangements are made—including the factors considered—creates a lack of transparency and accountability.

In addition, the Office of the Secretary of Defense (Comptroller) provided comments on a draft of this report. Specifically, it stated that because the funds for FY 2009 ISFF have not been released and the requirements have not yet been executed, it is premature to estimate that \$730 million of ISFF will remain available at the end of FY 2009. The Comptroller's office also stressed FY 2009 ISFF spending plans have not been approved and therefore, the discussion on its use may also be premature. SIGIR acknowledges that the FY 2009 ISFF spending plans have not been approved and that the funds have not been released for spending. Nevertheless, in anticipation of the approval and release of funds, MNSTC-I had developed plans to obligate the funds once they are released. While these plans will likely change throughout the year, at the time SIGIR completed its field work, these plans showed that MNSTC-I had about \$730 million of ISFF available for which no requirements have been identified. SIGIR incorporated other comments provided by the Comptroller's office into the final report as appropriate.

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<sup>10</sup> While SIGIR stated in its draft report that the lack of internal documentation on cost sharing agreements may "affect the future achievement of mission success," the final report further clarifies that statement by concluding that the lack of documentation in addition to the rotation of trainers and advisors could "affect the long-term success of the agreements."

## Appendix A—Scope and Methodology

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This assignment was conducted as SIGIR project 8033 and expands on SIGIR’s July 2008 report that focused on the ISFF used for infrastructure projects in Iraq. The objectives of this report were broadened and SIGIR examined: (1) MNSTC-I’s use of appropriated funds and its spending plans for remaining unobligated funds, (2) MNSTC-I’s process for making ISFF spending decisions, and (3) the relationship of U.S. spending to Iraqi spending for the Iraqi Security Forces.

To examine how MNSTC-I has used appropriated funds and its spending plans for remaining unobligated funds, we reviewed data on obligations, unobligated funds, and disbursements from the Department of the Army appropriation status “1002” reports, which are maintained by the Defense Finance and Accounting Service-Indianapolis Center. The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) provided the data. We obtained and analyzed ISFF spend plans and budget justifications from MNSTC-I’s Comptroller. Where differences between data systems were found, we crosschecked the data with ISFF appropriations status provided in MNSTC-I’s quarterly “Section 3303” reports to Congress. We also obtained explanations for these differences from MNSTC-I and the Office of the Assistant Secretary of the Army (Financial Management and Comptroller) officials.

To examine MNSTC-I’s process for making ISFF spending decisions, we reviewed operational orders, organizational objectives, and program and spending plans from MNSTC-I’s Directorates of Defense and Interior Affairs and their functional teams. We focused on these two directorates because much of the ISF are organized under them. As such, many of the requirements for ISFF appropriations also support these security forces. We also interviewed MNSTC-I and Multi-National Corps-Iraq officials to obtain an understanding of the requirements determination and prioritization processes as well as the decisions to share the cost for some requirements with the Government of Iraq.

To examine the relationship of U.S. spending to Iraqi spending for the Iraqi Security Forces, we reviewed program and spending plans from MNSTC-I’s directorates and functional teams and analyzed the justifications provided for requesting ISFF funding. In addition, we also obtained from MNSTC-I its estimates of Iraq’s past and future contributions to the development of the Iraqi Security Forces. To supplement our data, we interviewed MNSTC-I officials and obtained their rationale for the use of ISFF.

This audit was performed under the authority of Public Law 108-106, as amended, which also incorporates the duties and responsibilities of inspectors general under the Inspector General Act of 1978. We performed our work in Arlington, Virginia, and Baghdad, Iraq. We conducted this audit from October 2008 through January 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results based on our audit objectives. Based on those objectives, we believe that the evidence obtained provides a reasonable basis for our results.

## Use of Computer-Processed Data

We used funding data (ISFF appropriations, obligations, unobligated funds, disbursements) obtained from the Defense Finance and Accounting Service-Indianapolis Center “1002” Army appropriations status reports provided by the Assistant Secretary of the Army (Financial Management and Comptroller). We did not independently verify the overall integrity of this system. However, we crosschecked the information obtained from this system with information obtained from other sources for overall reasonableness. We did not find any major discrepancies. Thus, we believe that the funding data used in this report reasonably supports our overall results.

## Internal Controls

We reviewed the controls in place to identify and approve projects for use of the ISFF and compared those projects to both the organizational objectives and subsequent obligations and disbursements. While we used funding information from DFAS 1002 Army appropriation status reports, we did not perform an overall evaluation of the system.

## Related Reports by SIGIR and Others

Department of Defense Inspector General, *Report on the Assessment of Arms, Ammunition, and Explosives Accountability and Control; Security Assistance; and Logistics Sustainment for the Iraq Security Forces*, SPO-2009-002, 12/19/2009

SIGIR-08-022, *Government of Iraq Increasingly Funding Iraqi Security Forces Infrastructure Development, but Substantial U.S. Support Remains*, 7/26/2008

Department of Defense Inspector General, *Management of the Iraq Security Forces Fund in Southwest Asia – Phase III*, D-2008-026, 11/30/2007

SIGIR-07-016, *Interim Review of DynCorp International, LLC, Spending Under Its Contract for the Iraqi Police Training Program*, 10/23/2007

*The Report of the Independent Commission on the Security Forces of Iraq*, 9/6/2007

SIGIR-07-004, *Transferring Iraq Relief and Reconstruction Fund Capital Projects to the Government of Iraq*, 7/25/2007

House Armed Services Committee, Subcommittee on Oversight & Investigations, *Stand Up and Be Counted: The Continuing Challenge of Building the Iraqi Security Forces*, 6/27/2007

Department of Defense Inspector General, *Management of the Iraq Security Forces Fund in Southwest Asia – Phase II*, D-2007-0604, 2/12/2007

Department of Defense Inspector General, *Management of the Iraq Security Forces Fund in Southwest Asia – Phase I*, D-2007-030, 12/8/2006

## **Appendix B—Types of ISFF Funded Projects in Each Sub-activity Group**

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**Sustainment:** Weapons, ammunition, and contracted activities such as logistics support, maintenance, and other services.

**Infrastructure:** Facilities for military and police units, training academies and areas, detainee operations, and headquarters expenses.

**Equipment and Transportation:** Equipment and transportation for security forces and police, contracted security, force protection (including vehicle modifications), vehicles, organizational clothing, office furniture, and communications equipment.

**Training and Operations:** Military and police training, institutional development, instructor support, medical and office equipment, training aids, aircraft support, and information technology equipment and services.

## Appendix C—Acronyms

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Acronyms	Descriptions
DoD	Department of Defense
GOI	Government of Iraq
ISF	Iraqi Security Forces
ISFF	Iraq Security Forces Fund
MNF-I	Multi-National Force-Iraq
MNSTC-I	Multi-National Security Transition Command-Iraq
NDAA	National Defense Authorization Act
SIGIR	Special Inspector General for Iraq Reconstruction

## **Appendix D—Audit Team Members**

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This report was prepared, and the audit work conducted, under the direction of David R. Warren, Assistant Inspector General for Audit, Office of the Special Inspector General for Iraq Reconstruction. Staff members who contributed to the report include:

J.J. Marzullo

Tinh Nguyen

Charles Thompson

# Appendix E—Management Comments

## Multi-National Security Transition Command-Iraq

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MULTI-NATIONAL SECURITY TRANSITION COMMAND – IRAQ

Baghdad, Iraq  
APO, AE 09348

MNSTC-I-COS

12 January 2009

MEMORANDUM FOR SPECIAL INSPECTOR GENERAL FOR IRAQ RECONSTRUCTION

SUBJECT: Draft Audit Report - Review of U.S. Plans and Outcomes of Training and Equipping Iraqi Security Forces (Project 8033)

1. The draft audit report entitled "The U.S has reduced its funding for the Iraqi Security Forces, but continued support will likely be necessary" was forwarded for review and comment.
2. MNSTC-I comments on the recommendation made in the report:

MNSTC-I disagrees with SIGIR's recommendation to internally document discussions with the Iraqis on funding arrangements, discussion results, and rationale for using ISFF over Iraqi funds. We disagree for the following reasons:

- MNSTC-I does internally document cost sharing agreements. We do this by including anticipated GoI cost share dollar amounts within our program reviews and spend plans. We also maintain records of all historical GoI contributions as part of our GoI direct contracting and Foreign Military Sales (FMS) records.
- In light of MNSTC-I's success in obtaining ever increasing GoI commitment to sharing costs (as shown in Figure 5 of the report) using the current informal approach, the report goes too far in assuming the perceived lack of internal documentation may "affect the future achievement of mission success." Our on-the-ground assessment is that requiring documentation of discussions between senior commanders and GoI officials will not lead to greater cost sharing. Furthermore, MNSTC-I cannot enter into binding bi-lateral or international agreements with the GoI. Instead MNSTC-I uses influence and cooperation to obtain GoI cost share agreements.
- Finally, the audit report's emphasis on the lack of internal documentation overshadows the positive trend with cost sharing. MNSTC-I has significantly improved ISF capabilities with ever diminishing cost share of ISFF to GoI funds. Our return on investments on ISFF is higher than ever before, but the report obscures this important trend by fixating on lack of documentation.

3. We appreciate the opportunity to comment on the Draft Report.



MNSTC-I-COS

SUBJECT: Draft Audit Report - Review of U.S. Plans and Outcomes of Training and Equipping Iraqi Security Forces (Project 8033)

4. The point of contact for this action is LTC Yong Cassle, DSN (318) 852-1359.

A handwritten signature in black ink, appearing to read "Randy Buhidar", with a stylized flourish at the end.

RANDY A. BUHIDAR  
COL, USA  
Chief of Staff

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